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January 23, 2013

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: EB-2013-0147 Kitchener Wilmot Hydro Inc.
Final Argument of the Vulnerable Energy Consumers Coalition (VECC)

With respect to the above-noted proceeding we have attached the Final Argument of the Vulnerable Energy Consumers Coalition (VECC). We have also directed a copy to the Applicant as well as all registered intervenors via email.

Thank you.

Yours truly,

Michael Janigan
Counsel for VECC

cc: Kitchener-Wilmot – Margaret Nanninga – mnanninga@kwhydro.on.ca
All Registered Intervenors – via email

EB-2013-0147

ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sch.B, as amended;

AND IN THE MATTER OF an Application by Kitchener Wilmot Hydro Inc. pursuant to the Ontario Energy Board Act for an Order or Orders approving just and reasonable rates for the distribution of electricity commencing January 1, 2014

FINAL ARGUMENT of the Vulnerable Energy Consumers Coalition

Introduction

1. The Vulnerable Energy Consumers Coalition was a party to the partial settlement agreement filed with the Board that proposed a disposition for the issues to be determined in this application brought by Kitchener-Wilmot Hydro (KWH) for a change in rates effective January 1, 2014.

2. There were two issues left unresolved by the aforesaid agreement: (1) KWH's Working Capital Allowance, and (2) the OM & A budget. Subsequent to the hearing of the issues by the Board on January 8, and the Argument in Chief of counsel for the applicant KWH, VECC is submitting its Final Argument herein.

Working Capital

3. KWH maintains that its proposed Working Capital Allowance of 13% is appropriate given the Board's approach established in its letter of April 12, 2012 (page 3, VECC compendium) Ex K1.3). While KWH previously agreed to do a lead/lag study associated with its working capital requirement, it has not done so and is proposing switching to monthly billing of customers at cost estimated by KWH to be $401,000 (JT1.5).

4. It must be recognized that the Board's default approach, in the absence of company specific information, set out in the Board letter on page 3 of the VECC compendium(Ex K1.3) was established after receipt of a number of studies from bimonthly billing utilities concerning their needs (VECC compendium, p.1).

5. In VECC's view, the Board's recommended use of the 13% WCA default value had more to do with what was a practical response to the evidence at hand rather than articulating a regulatory formula to be plugged in regardless of circumstances, such as the ROE formula, for example.

6. In lead lag studies conducted by London Hydro in EB 2012-0380, and by Hydro One in EB 2013-0416, (Ex K1.4 herein) a substantially reduced percentage of OM&A and Cost of Power for working capital were found to be required for these utilities that implemented monthly billing. For London Hydro, that figure was 11.4%, and for Hydro One, that figure was 7.4% for 2015, 7.5% for 2016 and 7.6% for 2017.

7. As Mr. Aiken of Energy Probe's explored with WH's witness panel at the hearing, the 13% figure set as a default came from data utilities billing on a bi-monthly basis. The move from bi-monthly to once a month billing had the observed effect in utilities of reducing the amount required for the working capital allowance.

8. Specifically, the service lag (the amount of time from the provision of electricity to a customer and the customer service period ends and the meter is read), was reduced in the case of monthly billing London Hydro from the bi-monthly 30.27 days figure to 15.21 days. (Tr. Vol. 1 p. 60). London Hydro's working capital percentage, was, as a result the lowest in the group set out on page 28 of the Energy Probe compendium (Ex. K1.2).

9. Later in the cross-examination by Mr. Aitken, the impact of a similar reduction to service lags by implementation of monthly billing was discussed with the witness panel. In essence, equating the 13% default percentage with the bi-monthly service lag of 29.86 days the anticipated reduction to 15.21 days effects a reduction of some 4 percentage points to the working capital percentage of KWH (Tr. p. 70).

10. Because, KWH has not done a lead lag study or a business case analysis (Tr. Vol. 1, p.56), nor an empirical comparison of KWH with monthly billing utilities, there can be no precision concerning the effect of KWH's move to monthly billing. However, it is clear that KWH will spend , on its own estimate, some $400,000 switching to monthly billing

11. As is noted in the Reply filed by KWH in EB 2009-0267, set out in part in the compendium of Energy Probe (Ex K 1.2) filed in the within proceeding, KWH undertook to file a lead-lag study that would have provided a basis for the Board determination in this case, and simply, unilaterally, chose to rely on the Board letter referenced earlier. In the circumstances, its determination to rely on the Board letter of 2012 should not be entertained given the substantial evidence that the 13% figure is not correct after a transition to monthly billing.

12. The Board letter contemplated potential new information arising from a lead –lag study. In this case, KWH has used the Board letter to freeze the inquiry and attempt to glean all the benefits of an operational transition without passing on to ratepayers any of the positive results.

13. In VECC's view, the working capital percentage should be no higher than London Hydro's 11, 4%. It is higher than the reasonable estimate of a 4% deduction derived from calculations from anticipated service lag reductions from existing numbers but based on a comprehensive lead-lag study.

OM&A

	Last Rebasing Year (2010 BA)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Operations	3,051,200	2,824,720	3,258,635	4,821,308	5,365,500	5,642,000
Maintenance	4,761,500	4,069,611	4,856,219	5,226,753	5,260,500	5,619,400
Billing and Collecting	3,003,200	2,700,114	2,919,902	3,514,152	3,617,200	3,933,800
Community Relations	209,400	212,185	245,698	212,384	236,675	237,300
Administrative and General	2,856,203	2,464,329	2,444,036	2,669,133	2,951,200	3,090,700
Total	**13,881,503**	**12,270,957**	**13,724,490**	**16,443,729**	**17,431,075**	**18,523,200** **18,480,760**

14. KWH is requesting a 33% increase in its OM&A budget from the 2010 Board approved or a 50% increase over what it actually spent in 2010.

15. KWH is still an above-average performer in terms of OM&A per customer among electrical LDCs in Ontario. However, the fact that KWH is (or was) a relatively good performer on an OM&A per customer basis is immaterial. High performance is not an excuse for stepping backward – it is not a race to the bottom.

16. VECC believes that the envelope approach to setting the OM&A budget is preferable to the regulator starting from the bottom and working to the final figure for approval.

17. Unfortunately, this is not the approach of KWH. As was noted in the hearing, they do not use an envelope approach in budgeting, leading to the probability that the envelope will be exceeded.

MR. JANIGAN: Now, at some point in time, do you go back and look at your budget through the lens of the envelope approach that has been adopted in a number of decisions by the Board?

MR. VAN OOTEGHEM: We have not done that, I would say, to date. We compare against ourselves more so, in terms of year-over-year budgets and year-over-year programs that we -- you know, that we're managing.

18. VECC believes that the envelope approach allows flexibility by the budgeting utility and allows the setting of priorities for OM&A spending by those closest to the actual supervision of utility operations.

19. VECC believes that 2013 should not be used as a starting point for 2014 OM&A. It is clear from the evidence that KWH has had inordinate growth in OMA beginning in 2012. Even if one considers the incremental cost of smart metering and the change to accounting methods (approximately $2.4 million in incremental costs) the growth in OM&A from 2010 actuals to 2013 has been approximately 18%. This is well above inflation and customer growth.

20.

	2010 BA	2010 Actuals
	13,881,503	12,270,957
CPI Adjustment	992,527	992,527
Smart Meter Adjust	711,900	711,900
IFRS/MGAAP Adjust	1,700,000	1,700,000
Customer growth	874,534	773,070
Total Incremental Growth	**4,278,961**	**4,177,497**
Stretch factor	333,156	294,503
Productivity Offset .7 x4 (.2+.7)	399,787	353,403
Total Reductions	**732,943**	**647,906**
Recommendation	17,427,521	15,800,548
Reduction from Proposed	**1,095,679**	**2,722,652**

21. Above we have prepared a table using the "expected growth" methodology that VECC has employed with all Utilities. This exercise attempts to find the operating costs had the Utility's costs been adjusted from its last cost of service application (2010 Board approved) for only customer growth and inflation. The second part of the test examines what, if any, incremental responsibilities have been taken on by the Utility since its last rebasing and adds these costs to the expected growth results. The test is similar to the policy approach taken by the Board though simpler and taken with a more consumer oriented point of view. We note that this method does not always show that Utilities should decrease spending. In the recent case of Co-operative Hydro Embrun (EB-2013-0122) the method confirmed the prudence of the applicants proposed OM&A spending.

22. For inflation VECC has used the rates used by KWH shown at Exhibit 4, Tab 1, Schedule 2, page 6. Between 2010 and 2013 the cumulative inflation is approximately 7%. The incremental adjustment in moving to Modified CGAAP is $1.692 million as confirmed by the Applicant at the hearing (se page 93-94). We use this figure even though the Applicant has also used the figure of $1,227,168 in the cost driver tables at Appendix 2-J. Customer growth has been estimated for the period 2010 to 2014 (inclusive) at 6.3% based on the settled issue. VECC has also proposed the standard adjustments for the IRM period productivity and stretch factor offsets (reductions) (from EB 2011-0179). If these are not included than the long term benefits of the IRM policy are moot.

23. The one area in which there remains some confusion is with respect to the incremental cost of smart metering. VECC has used the figure of $711, 00 as shown at Exhibit 2, Tab 4, Schedule 5, pg.4. However, we note that in response to Undertaking J1.4 and Energy Probe interrogatory 4-EP-7, the actual incremental cost may be closer to $350,000. In any event, and to give the Applicant the benefit of the doubt, we have used the higher figure.

24. The result of this analysis shows that KWH is proposing OM&A for 2014 that is excessively high as compared to its last Board approved even with generous additions for smart meters.

25. As VECC has done in the past, we advocate an envelope approach to setting OM&A and leaving the discretion in the hand of the Utility to manage spending. However, in support of the above analysis VECC notes that savings are clearly in a number of areas, including the overforecast of bad debt. For example, while KWH simply believes that a customer that doesn't pay the bi-monthly bill won't pay the monthly bill, this makes little practical sense. Both the size of bad debts should be reduced and the ability to pay the lower amount should be enhanced leading to less need for collection intervention. VECC suggests that the KWH response to undertaking J 1.2 that illustrates some rather rudimentary, or at least highly speculative, treatment of the effect of the change to monthly billing.

26. VECC would also argue that while membership in the Electricity Distributors Association may have some synergistic spin off benefits for ratepayers, it is largely as association to benefit the municipal owners. Similarly, VECC points out that some costs with less than arms length entities, like the MEARIE insurance, should be subject to greater scrutiny.

Costs

27. VECC submits that it has participated responsibly throughout and attempted to arrange its intervention in tandem with its fellow intervenors to minimize duplication. It accordingly requests 100% of its fees and disbursements.

Submitted this 23rd day of January 2014